

**Statement of Ambassador Peter Allgeier
Deputy U.S. Trade Representative
before the
Committee on Finance
February 13, 2002**

Thank you, Mr. Chairman, Senator Grassley, and Members of the Committee, for inviting me to testify today on two of the most important issues on our current trade agenda.

On February 6, Ambassador Robert B. Zoellick said "Given America's relative openness, we can only maintain domestic support for trade if we retain strong, effective laws against unfair trade practices" and that "...the Doha Declaration makes clear that trade remedy laws are essential tools." This Administration's handling of the softwood lumber and steel issues is founded upon effective enforcement of our unfair trade laws.

In addition, U.S. trade laws and international agreements also provide for safeguard actions when domestic industries are injured by a flood of imports. Under the WTO Agreement, the ability for a country to implement safeguard measures is an important part of the trade regime that we bargained for in successive rounds of GATT and WTO trade negotiations.

I appreciate the opportunity to discuss two concrete examples of these trade laws in action - softwood lumber and steel. I would like to begin with an update of the softwood lumber negotiations and then move on to steel.

Softwood Lumber

As you are well aware, Canadian provincial practices concerning softwood lumber have been the center of a long-standing and often heated dispute between Canada and the United States. For over twenty years, we have sought to change practices in Canada that essentially export unemployment to the United States.

We are steadfast in our support for the U.S. industry's right to file antidumping and countervailing duty petitions, vigorous in our enforcement and defense of U.S. trade laws, and unrelenting in our pursuit to eliminate the unfair provincial practices in Canada.

To understand the serious nature of the problem that we face in softwood lumber, one simply needs to look at the imbalance in the marketplace, and how responding to market forces falls squarely on the shoulders of the U.S. industry rather than equally on both U.S. and Canadian producers. Mill closures and production curtailments have been felt primarily in the United States. From 1999 to 2000, the most recent figures available, U.S. softwood lumber production dropped 639 million board feet. Canadian production increased 17 million board feet and Canadian softwood lumber imports into the U.S. increased 82 million board feet over the same period. In addition, Random Lengths (a wood products industry report) has identified 158 U.S. softwood lumber mill closures, with 27 of these permanent, in the 8 months prior to the filing of the AD/CVD cases. During this same time period, 53 closures were reported in Canada, with

only two permanent. Finally, lumber prices have been at or near all time lows in real terms. Random Length's framing lumber composite price was \$297 per thousand board feet in January, which is below the annual average composite price for each of the last 9 years.

However, there finally is serious discussion of reform within Canada itself. For example, there is a new provincial government in place in British Columbia that is focused on the need to reform British Columbia's practices. There is some hope that the Canadian federal and provincial governments are willing to talk about the fundamental causes of the problem - the practice that insulate Canadian lumber producers from market forces and competition. It has taken us over twenty years to get the discussion with Canada to this point. This Administration is committed to an intensive effort to reach an agreement which will result in market-based behavior by Canadian producers so that we have the equivalent of open competition in Canada that will address our concerns about unfair practices.

The work of our Special Representative Governor Racicot has gotten us to this point. His knowledge of the issues and commitment to our efforts have made an invaluable contribution to moving the softwood lumber discussions with Canada further than they have ever been. We are finally talking about, for example, how the administratively set stumpage fees in the Canadian provinces fail to capture the full market value of the timber stands, and about how current tenure systems and processing requirements obstruct market forces from affecting Canadian producers.

Given the complexity and inter-related nature of all the practices, we seek changes to a broad range of policies. From the start, our approach has been to focus on three interwoven sets of provincial practices: tenure reform, mandated requirements and stumpage pricing practices. Province-specific reform is necessary all along the processing chain, from when the tree is cut to when the sawmill ships lumber to the market. Our approach is to press for reforms that enable market forces to penetrate the decision making at various points throughout the manufacturing process.

We have raised serious concerns about the long-term timber harvesting contracts in Canada and how they limit competition and depress the price of timber. Long-term guaranteed sources of supply for almost all timber needs protect Canadian softwood lumber producers from market risks U.S. producers face every day. In order to introduce competition into the provincial systems, we believe Canadian softwood lumber producers should obtain a significant amount of their timber needs from the open market on a regular basis - as U.S. producers do. We seek competitive auctions rather than prices determined by provincial governments. In addition to the critical area of auctions, we seek the elimination of mandated requirements. Several Canadian provinces mandate that a given volume of timber goes to a specific mill and that a tenure holder must own processing facilities. Several provinces, in fact, require producers to remain operating despite economic realities to the contrary, thereby forcing lumber products on the U.S. market. Such mandated requirements discourage competition among existing firms and bar new companies from entering the market. Competition is increased when the barriers to entry are reduced for all mills.

Furthermore, there should be a tight linkage of the remaining administered priced timber to the

timber sold competitively. To ensure fair play, we believe provincial minimum reservation prices and protections against collusion in the bidding processes should be reformed. As a competitive market is our objective, we will need to see if sufficient competition results. If other provincial restrictions could contribute to the solution, we are willing to consider them. We are also exploring a cross-border stumpage price reference mechanism to ensure that Canadian producers are influenced by market forces in a manner similar to U.S. producers. All of these elements are inter-locking and interrelated. Any solution which is based on reforms will have to be customized to reflect the differences of the current systems in each Canadian province.

At the end of last year, the key Canadian provinces (Alberta, British Columbia, Ontario and Quebec) gave us initial province-specific proposals aimed at addressing our concerns in all three sets of policies (i.e., tenure reform, mandated requirements and stumpage pricing practices). While they represented a framework which could be the basis for an eventual agreement, the positions varied in detail from province to province and, in our view, did not address sufficiently the essential issues. Yet, they were helpful in giving the various U.S. stakeholders an idea of what was on the table. We intend to follow-up with Canada by holding additional discussions in Canada next week in Ottawa.

In addition to our frequent consultations with the petitioners of the AD/CVD cases, we have worked closely with environmental groups to determine their concerns. Many of the concerns to U.S. producers, such as tenure reform and eliminating mandated minimum cut requirements, are priorities for the environmental groups too. Throughout the negotiations, we have regular contact also with the National Association of Homebuilders and other consumer groups, and we are taking their views into consideration in our attempts to address the unfair practices in Canada without imposing undue burdens on our communities and families.

All of these groups have provided us with useful advice on how to improve the provincial-specific framework tabled at the end of last year, so that any subsequent agreement would address the fundamental unfair practices in Canada. We also value the input from members of this Committee. We will continue to work with all U.S. stakeholders on these important issues in the days and weeks ahead.

We are trying to craft a productive way forward so that the fundamental causes of the problem - the provincial practices that insulate Canadian lumber producers from market forces and competition - are remedied. High-level contacts with Canadian officials continue.

In concluding my remarks on softwood lumber, I would like to assure you that we will not accept just any agreement. We supported the U.S. industry's filing of the AD/CVD cases. If we are not able to achieve a meaningful agreement which addresses the underlying problems identified in those cases, we will press ahead with effectively enforcing our trade laws and vigorously defending our rights in the WTO.

Steel

Now let me turn to steel. Following Ambassador Zoellick's testimony last week, and that of

Under Secretary Aldonas today, my remarks on steel will be brief. As they have testified, the Administration is hard at work implementing the President's three-part steel strategy which consists of the initiation of (1) a Section 201 safeguard action; and (2) complementary international discussions with our trading partners aimed at eliminating inefficient excess capacity, and (3) negotiations aimed at eliminating market-distorting measures, such as subsidies, in the world's steel industry.

This Administration is committed to free markets and open trade. Our decision to launch the President's comprehensive steel initiative is based on those principles. That is why the initiative is focused on restoring market forces to the steel industry and addressing global inefficient excess capacity. The U.S. has been one of the largest net importers of steel, and is the market of first and last resort for many steel-producing countries around the world. Both these factors have led to surges in low-priced steel exports to the U.S. and injury to the domestic steel industry.

Excess Inefficient Steelmaking Capacity and Market Distorting Practices

After the President announced his desire to launch multilateral steel talks, senior officials from USTR, and the Departments of Commerce, and Treasury began an intensive series of bilateral consultations to prepare an agenda for multilateral talks at the OECD. Teams of senior officials literally traveled around the world two times, meeting with officials in Argentina, Brazil, Canada, China, the European Union, Japan, Korea, Mexico, Russia, and Ukraine. In addition, Cabinet level officials raised these issues in bilateral consultations at home and abroad, and our State Department colleagues at U.S. Embassies followed up with a number of meetings in foreign capitals.

At the first round of negotiations, held at the OECD on September 17-18, 2001, we obtained the consensus of the participating governments that a global excess of inefficient steelmaking capacity is a central problem affecting steel trade. The governments issued a communique recognizing the problems caused by the global excess of inefficient steelmaking capacity, and committed to taking concrete actions to reduce global excess inefficient steelmaking capacity.

OECD steel discussions have proceeded with a "self assessment" in which each government consulted with its industry to assess what changes in steelmaking capacity have recently occurred or are anticipated to occur due to market forces.

As stated in the OECD communique, the participating governments agreed to consult with individual steel producers in their own countries over the next two months and:

evaluate the long term economic viability of their steel facilities in an open global market;

identify the response of their steel companies to changing competitive conditions in world steel markets in recent years, and consider what further actions their industry is likely to take;

identify the facilities unlikely to be economically viable;

identify the principal economic, social and regulatory issues that are impeding, or could impede, closure/reduction of this capacity; and

consider policies to facilitate the reduction/closure of inefficient facilities via market forces.

The results of these government/producer consultations were then discussed at the next round of negotiations on December 17 and 18, 2001. At that meeting, we obtained the consensus of the 39 participating governments that the global excess of inefficient steelmaking capacity is a central problem affecting steel trade. Participating governments reported that market forces and policy measures have recently resulted in, or will result in, the projected closure of at least 61 to 65 million metric tons of capacity by the end of 2003, a further 9.5 million tons of capacity by 2005, and another 23 million tons by 2010.

USTR and Commerce officials have just returned from the Third High-Level meeting on Steel at the OECD held in Paris on February 7 and 8, 2002. At that meeting, the U.S. delegation, headed by Under Secretary Aldonas, made further progress on the Administration's goals. Representatives of the 39 participating governments forecast that as much as 117.5 million tons of excess inefficient steelmaking capacity will close around the world by the end of 2005.

Although the total amount of projected capacity closure is less than the total amount of global excess of steelmaking capacity, estimated to be approximately 200 million metric tons, reduction of as much as 117.5 million tons of excess in efficient capacity should contribute significantly to the stability of the world steel market.

The participants at the February OECD session also agreed to establish terms of reference for two groups to further implement the multilateral initiatives on capacity and market distorting measures. The first is a Capacity Working Group which will regularly update and review the progress made towards the market-based reduction of excess capacity around the world.

The second group will focus on the need for greater disciplines on government interventions and other market distortions in steel. The communiqué issued on February 8 established the following mandate for the initial work of the group:

to explore the scope for a political commitment by participants to voluntarily limit or, where possible, eliminate market-distorting government measures related to the steel industry, except for the purpose of facilitating closures;

to examine which of the existing multilateral disciplines do not appear to be achieving the desired results in the case of steel and why;

*to establish an inventory of measures that distort steel markets;
and, in light of the above,*

to develop options for the strengthening of disciplines on government interventions and other

market distortions in steel, feeding the results, as appropriate, into wider-ranging discussions at the WTO.

In the coming months, we intend to use the work of this group, particularly the inventory of market distorting measures, to identify issues for further negotiation in the WTO and other fora as appropriate.

In summary, by obtaining the consensus of 39 governments to take action on excess inefficient capacity and market distorting practices in global steel trade, the Administration has achieved important initial results at the Special High-Level Meetings on Steel at the OECD. However, solving the challenges facing the steel industry will require a continued effort. We at the Office of the USTR will continue to work with the domestic industry, our trading partners, and our colleagues at the Departments of Commerce, State, Labor, and Treasury to solve the complex problems of excess inefficient capacity and market-distorting practices in the global steel industry.

Section 201

In June, the Administration requested a safeguards investigation by the U.S. International Trade Commission into whether increased imports were causing serious injury to the U.S. steel industry. The Administration's action was supported by the resolution of this Committee.

Since this Administration began to formulate new steel policies, Ambassador Zoellick and other members of the Administration have made it clear that a long-term solution must be found to ensure a healthy, viable steel industry. Our steel strategy is therefore aimed at restoring market forces to the global steel market.

On October 22, 2001, the U.S. International Trade Commission found that imports valued at over \$10 billion a year were harming U.S. manufacturers and workers. These products accounted for approximately 74%, by volume, of United States steel imports.

This is the most complex Section 201 investigation ever conducted. On December 19, the International Trade Commission issued its three-volume report containing its recommendations. A plurality of the commissioners recommended various remedies for many of the steel product categories.

On January 3, 2002, Ambassador Zoellick, on behalf of the Administration, requested additional information from the ITC that would be useful to the President in evaluating whether to impose a safeguard action under Section 201.

On February 4, in response to Ambassador Zoellick's request, the ITC provided the information on:

Unforeseen developments that contributed to the injurious increase in imports of steel

The economic analysis of remedy options considered by the Commission

Whether the Commissioners would have made affirmative injury determinations if NAFTA countries are excluded.

In response to the question regarding imports from Canada and Mexico, the ITC Commissioners found that none of its injury determinations would change if imports from Canada and Mexico were excluded. The Administration is carefully considering the supplemental information provided by the ITC.

In addition to the three-volume report and the supplemental information from the ITC, the Administration is also considering the views of a diverse collection of steel companies, labor unions, steel consumers, port authorities, exporters, and interested Members of Congress.

In order to solicit input from as many stakeholders as possible, on October 26, we published a notice in the Federal Register establishing an electronic filing system for the Trade Policy Staff Committee (TPSC) and have received several hundred comments on the following subjects:

Comments on what action, if any, the President should take under Section 201

Proposals on industry adjustment actions

Requests for exclusion of specific products

Rebuttal on the three subjects above

These comments have been very helpful to the Administration. These comments are available for public review on the USTR website at: <http://www.ustr.gov/sectors/industry/steel/.shmtl>

After receiving written comments, the TPSC held more than 90 meetings with parties representing virtually every segment of the steel producing and consuming industries. Administration officials have also held numerous individual meetings with domestic parties and bilateral consultations with foreign governments. These consultations are continuing.

Pursuant to our WTO obligations, the USTR has formally notified WTO members that the United States is prepared to hold consultations under Article 12 of the WTO Agreement on Safeguards. In response to that notification, we have received formal requests for consultations from Brazil and the EU, and the first consultation with the European Union is scheduled to occur this afternoon (February 13, 2002). Any action taken by the President under Section 201 will be consistent with our WTO obligations.

We of course welcome further input from this Committee and the Congress. Based on this information, we expect the President will decide on a course of action in coming weeks.

Thank you for this opportunity today to explain why our objectives in implementing the President's steel policy.